



enter

Annual Report of CareFirst, Inc.

1999

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**CareFirst**   
**BlueCross BlueShield**  
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## our promise

CareFirst BlueCross BlueShield helps you achieve and maintain the best possible state of health. We are making health care easier.



Three words – [simplify](#), [assist](#), [empower](#) – capture the theme of this Annual Report. They convey a sense of CareFirst BlueCross BlueShield’s renewed commitment to customers as we move into the new millennium. We want to [simplify](#) our members’ interactions with the health care system at every opportunity. We will continue to [assist](#) members by providing them with the health care information they need. And, we seek to [empower](#) them to make the best possible health care choices for themselves and their families.

Three words also sum up the results of CareFirst’s performance in 1999 as set forth in this report: [growth](#), [strength and security](#). For that, we are indebted to our members, our associates, our networks of health care providers and our business partners.

## *our promise*

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## ***Messages from the President and Chairman of the Board***



### **From the President and Chief Executive Officer**



***Dan A. Colussy***  
***Chairman of the***  
***Board***

***William L. Jews***  
***President and Chief***  
***Executive Officer***

**T**hrough the diligent work of our associates, CareFirst BlueCross BlueShield marked some important milestones in 1999. History was made last year as membership rose sharply to 2.6 million members. Through our focus on quality, our CapitalCare and FreeState HMOs both achieved full three-year accreditation from the National Committee for

Quality Assurance. FreeState was also named the top HMO in the Mid-Atlantic by CareData Reports. Our Federal Employees Program (FEP), the nation's largest with more than a half million members, was honored with the Blue Cross and Blue Shield Association's "High Performance/Low Cost" award as the top performing Blue Cross and Blue Shield Plan in the Blues network. CareFirst's commitment to the community was reflected in the record \$683,000 that was raised for the 1999 United Way campaign.

We also launched the new CareFirst BlueCross BlueShield brand name and, by year-end, surveys indicated that the public held a more favorable image of CareFirst BlueCross BlueShield than of any competing health plan in our market area.

Ahead of us lie both challenge and opportunity. Our greatest challenge is responding to our customers' needs in the face of rising health care costs. Our greatest opportunity is the tremendous potential for growth with the next generation of consumers empowered by information and

technology. To realize that potential, our decision making process must be customer focused. Clearly, to better satisfy our customers, we must simplify the way we do business with them and with the providers of their care.

The path to good health is being reshaped by new technologies, advances in medical research and more direct channels for getting information to those we serve. That's why CareFirst introduced a new prescription formulary in 1999 that gives our members access to a broader array of medicines at less cost, and it's why we launched CareFirst Options, offering members alternative approaches to wellness and disease prevention.

These initiatives clearly differentiate CareFirst from its competition and help distinguish our company as a respected health care leader in the Mid-Atlantic region. We intend to [simplify](#) the health care process...to [assist](#) you in making wise choices about health care...and to [empower](#) you by providing you with better information. Are we there yet? No. But, we are on the right road, moving in the right direction, and motivated by the challenge of our journey.

The milestones we have passed and the progress we've made are evidence of the dedicated efforts of the company's 5,300 associates. I am sincerely grateful for their support and for what they have accomplished. And, over the past three years, we also have benefited tremendously from the experience and good counsel that Dan Colussy has provided as chairman of the CareFirst Board of Directors. As he retires from the Board, I join with directors and associates in expressing here our appreciation for his leadership focused on customer satisfaction.



William L. Jews  
President and Chief Executive Officer

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## From the Chairman of the Board

As I retire from the CareFirst Board, I do so with a sense of pride, appreciation and accomplishment. During the past three years, against the backdrop of unprecedented change and consolidation within the health care industry, we put into place an organization that is well prepared to serve the needs of its customers in the years ahead. I take

particular pride in what has been accomplished through the hard work and professional competence of the CareFirst associates who made it possible. I have witnessed their effort to focus on customer service first-hand and thank each of them. As I pass the baton to Dan Altobello, I do so knowing that CareFirst, under the leadership of Bill Jews as president and Dan as chairman, is in good hands. I am confident that our customers will be well served and am pleased to have had this opportunity. CareFirst is poised for continued success.

A handwritten signature in blue ink that reads "Dan Colussy". The signature is stylized with a large, sweeping loop at the end.

Dan A. Colussy  
Chairman of the Board



## simplify

### – Health care is about people



*One-third of all CareFirst associates are front-line providers of medical care –*

*physicians, nurses, clinical assistants and others who help our members get well and stay well. Dr. Scott Strahlman, Chief of Pediatrics at Patuxent Medical Group, is one of those associates.*



### The CareFirst Focus: people with real needs.

During 1999, we initiated a review of all the words and phrases used in the contracts, literature, presentations, sales materials and other documents that convey, record and explain the company's business. We want to eliminate confusing, ambiguous and needlessly complex words and phrases and make our documents easier to read. It's a big job entailing literally thousands of different written items. Our goal is to make the business of health insurance easier to understand for CareFirst's members, providers and business partners.

Given the torrent of change buffeting health care today, it is critical not to lose sight of this fundamental truth: Health care is about people.

The 5,300 associates of CareFirst BlueCross BlueShield keep this basic tenet foremost in mind as they go about the day-to-day business of providing and administering quality health care to our 2.6 million members. Spread throughout the Mid-Atlantic region, the CareFirst membership includes individuals with widely varying needs and expectations when it comes to health care.

That's why CareFirst is committed to a strategy to **simplify** our

procedures and streamline our operations. In the coming months, we will build a new telephone infrastructure capable of routing calls to CareFirst sites throughout our service area to further improve our communications with customers. We also plan to expand our eCommerce capabilities so that our customers will have direct online access to enrollment and billing, claims status review and a Family Health Advisor. Another CareFirst move toward health care simplicity: a regional HMO with an extensive network of primary care physicians and medical specialists serving the entire CareFirst region.

# Enrollment by Product

Total: 2,601,000

Indemnity	27.4%	HMO	14%
Preferred Provider Organization	41.6%	Medicare	1.8%
Point of Service	11.4%	Medicaid	3.8%



## assist

– Nearly 122,000 claims transactions handled each business day

*Keeping health care simple is directly tied to CareFirst's Management Philosophy: "to always offer quality health care to our members at the right time and in the right setting."*

### The CareFirst Focus: people with real needs.



Jeanette Ayres, R.N., CCM, in CareFirst's Federal Case Management in Timonium, assisted a member in Abingdon, Maryland, who responded:

*To my good fortune, my case manager was Jeanette Ayres. She is one of the most competent individuals I have ever had the pleasure of working with during a complicated illness. Her counsel and support played a major role in my recovery. With her experience and professional bearing, I managed to recover at home, thus avoiding an extensive and expensive hospital stay.*

Each day, CareFirst associates strive to provide service that not only meets but exceeds our members' expectations.  
It's what we do.

Each business day, CareFirst associates respond to more than 31,000 telephone inquiries and handle nearly 122,000 claims transactions. In 1999, on average, more than 2,700 new members were enrolled each day. All these tasks are classic business functions, but health care is unlike other businesses. CareFirst associates seek to assist our members with their problems. They take the time required to resolve issues and get results. In 2000, for example, CareFirst will expand upon a program begun in the National Capital region that offers members a direct line to a nurse practitioner 24 hours a day, seven days a week.

Under another company initiative announced in 1999, nearly 500 practitioners of alternative therapies and wellness services currently

participate in the CareFirst Options program by offering discounts to members throughout the CareFirst service area.

# CareFirst Provider Networks

63,794

Participating Physicians,  
Dentists,  
Non-Physicians

74

Participating Acute Care  
General Hospitals

## empower

### – Using the new tools of the information age

*The CareFirst Web site – [www.carefirst.com](http://www.carefirst.com) – is a rich resource of healthcare information for members and the public. Since going online in 1996, the number of users has tripled.*



### Looking at health care with fresh eyes.

Information that is timely, accurate, well organized and easily accessed will be essential if CareFirst is to meet and exceed our members' expectations in the rapidly evolving eCommerce economy. Information resources will empower CareFirst associates to deliver service that is faster, more thorough and better tailored to the individual needs of each customer. Information will also empower our members by giving them the ability to personally track the progress of their claims, find a specialist with particular medical skills, or tap into new resources for healing and maintaining good health.

Traditionally, the health insurance business has been defined largely as the processing and paying of claims. CareFirst BlueCross BlueShield is expanding that definition by taking bold steps in a new direction. Processing claims remains important. But, using the new tools of the information age presents abundant opportunities to add new dimension to the process. Every transaction provides information that can help us improve service and ultimately deliver greater customer satisfaction. That is fundamental to the CareFirst strategy for transforming the claims-paying process into a consumer information and service process.

The effort extends far beyond computers and data management. It will empower CareFirst associates by providing them with specific information to better meet the service needs of our members. It will

empower health care professionals and hospitals by streamlining patient referrals and by transmitting the latest health information electronically. Most importantly, through this comprehensive focus on customer service, CareFirst is seeking to empower members by providing them with the service and information they need to achieve and maintain their best possible state of health.

## CareFirst Membership

1996  2,075,957

**260,172**

1997  2,209,563

**Net Increase  
in Members  
for 1999**

1998  2,340,828

1999  2,601,000

## 1999 highlights

*Mail me the 1999 Report*



### JANUARY

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- CareFirst BlueCross BlueShield introduces new corporate name and logo with extensive consumer-focused campaign.
- Blue Cross Blue Shield of Delaware seeks regulatory approval to become a CareFirst affiliate.
- FreeState Health Plan's full three-year accreditation renewed by National Committee for Quality Assurance (NCQA).

### FEBRUARY

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- CareFirst enrollment surges with seven new major corporate accounts delivering more than 45,000 new business contracts.

### MARCH

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- "Health Tips On Hold," providing valuable health information, is introduced to ease the on-line wait for members during peak calling hours.

### APRIL

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- CapitalCare HMO gains full three-year NCQA accreditation for the first time.
- Potomac Physicians Practice Association (PPPA), an affiliated physicians group, celebrates 10 years of serving patients.

## MAY

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- CareFirst Administrators is the new name adopted by Willse & Associates, a CareFirst affiliate offering health care administrative services to self-insured employer groups.

## JUNE

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- Blue Cross and Blue Shield Association honors CareFirst BlueCross BlueShield with its “Brand Excellence Award” in recognition of brand strength and customer loyalty in the first year under our new name.



## JULY

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- CareFirst introduces hospitalists, personal patient monitors, in hospitals to guide care and improve patient satisfaction.

## AUGUST

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- CareFirst earns \$8 million performance award for excellent service under the Federal Employees Health Program – a company record.
- National Capital Insurance Agency, Inc. changes its name to CareFirst Insurance Agency, Inc.

## SEPTEMBER

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- State of Maryland selects expanded package of CareFirst health coverage choices for more than 63,000 employees, representing our second largest single contract.
- CareFirst Options offers members alternative therapies and wellness services, including acupuncture, massage therapy, chiropractic therapy, fitness centers and spas at discounted rates.

## OCTOBER

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- CareFirst BlueCross BlueShield celebrates membership growth and customer service with associate-family outings at Kings Dominion and Kings Island that attract more than 15,000.

## NOVEMBER

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- Combined associate and company contributions to the 1999 United Way Campaign exceed \$683,000 – a company record.
- Acquisition of the Michelsen Group in North Carolina extends CareFirst's third party administrative services from Georgia to Pennsylvania.

## DECEMBER

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- Individual CareFirst health insurance products made available online through a new broker, eHealthInsurance.com.
- Dan Colussy announces his retirement from the Board of Directors effective Jan. 1, 2000. Daniel J. Altobello, chairman of Onex Food Services, Inc., is named successor. The Board approves the five-year Strategic Plan.



## JANUARY 2000

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- CareFirst passes Y2K transition with all operations up and running.



## CareFirst – Networks, Products, Affiliates

With more than six decades of experience, the Blue Cross and Blue Shield name has earned the respect and trust of members, business partners and health care professionals. CareFirst BlueCross BlueShield very proudly carries forward that tradition throughout our service area.



### NETWORKS

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The CareFirst network of participating physicians and specialists extends throughout the Mid-Atlantic region. More than four of five medical professionals who practice in CareFirst's service area – including all of Maryland, Washington, D.C., Northern Virginia and Southern Delaware – participate in one or more of CareFirst's provider networks. It is a unique health care resource of more than 40,000 carefully selected and committed primary care physicians and medical specialists.

CareFirst has negotiated special arrangements with the provider community that allow CareFirst members to receive care services at favorable rates.

### PRODUCTS

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The CareFirst product portfolio ranges from traditional fee-for-service health care insurance to fully managed health care. Optional features and services allow these plans to be enhanced and reshaped to meet the specific personal, medical and financial needs of our employer accounts. Available are **Point-of-Service** plans that can be structured to combine the advantages of traditional indemnity insurance in a managed care setting and **Preferred Provider Organizations** that provide the flexibility of a preferred physician or hospital while still controlling care costs. CareFirst's innovative **HMOs** routinely score highly in annual ratings published by independent organizations, state agencies and

national publications. **The BlueCard** can be used when our members travel to secure care from the nearest participating Blue Cross Blue Shield doctors or hospitals just as they would when at home. **CareFirst Options**, beginning in January 2000, provides CareFirst members in Delaware, Maryland, Northern Virginia and the District of Columbia with discounts on such alternative therapies and wellness services as acupuncture, massage therapy, chiropractic therapy, fitness centers and spas.

## AFFILIATES

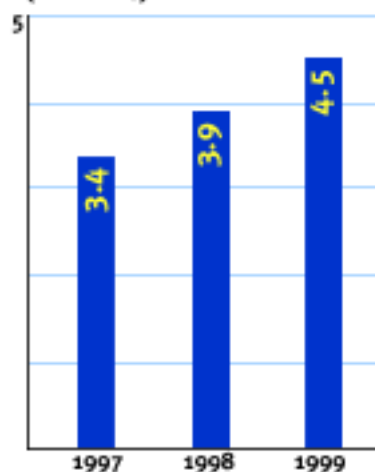
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CareFirst operates a number of affiliates, including: **CareFirst Administrators and National Capital Administrative Services**, which offer third party administrative services and claims processing for self-insured employer groups; **CareFirst Insurance Agency**, Inc., offering life and accidental death and dismemberment insurance, disability products and flexible spending accounts; and three health maintenance organizations – **CapitalCare**, serving the metropolitan Washington region; **Delmarva Health Plan**, serving Maryland's Eastern Shore and Southern Delaware; and **FreeState Health Plan**, primarily serving Maryland. CareFirst also controls two physicians groups – **Potomac Physicians Practice Association** and **Patuxent Medical Group**. CareFirst is a part owner of and handles sales and marketing for another HMO serving the Baltimore-Washington corridor, the **Preferred Health Network**, and is part owner of **CarePartners**, an innovative provider-payor partnership for Medicaid members in Baltimore City.

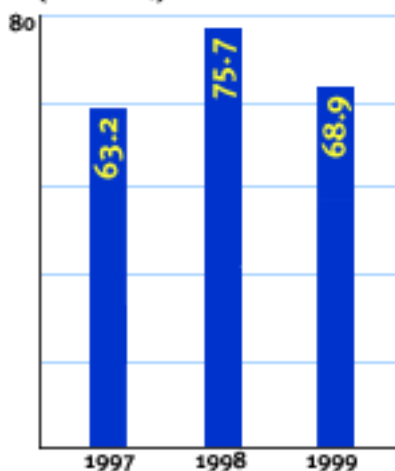
## Financial Highlights

This report of financial performance for CareFirst's consolidated operations provides detailed information about the progress the company made in 1999. Total enrollment grew sharply to 2.6 million members. Revenues for the year also increased to \$4.5 billion, up from \$3.9 billion in 1998. Net income, while down from the level of a year earlier, reflects the rising cost of health care in 1999 as well as substantial investment in Y2K preparedness and other information technology improvements. The company's reserves, a common measure of financial strength under generally accepted accounting principles, rose from \$472 million at year-end 1998 to \$512 million by year-end 1999, an increase of 8 percent.

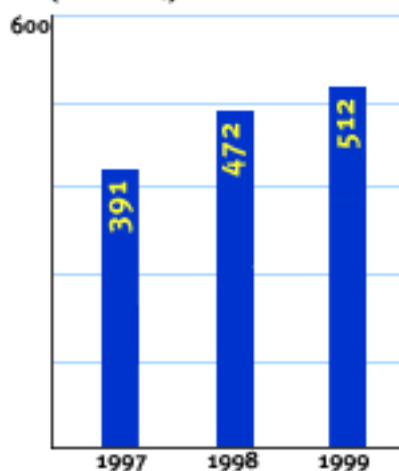
**Revenues**  
(in billions)



**Net Income**  
(in millions)



**Reserves**  
(in millions)



## **Board of Directors**

CareFirst, Inc., the holding company for CareFirst of Maryland, Inc., and Group Hospitalization and Medical Services, Inc., is governed by an independent board of directors. Each affiliate has its own board. (As of 12/31/99)

### ***CareFirst, Inc.***

**Dan A. Colussy** – Chairman

**Edward J. Baran** – Vice Chairman

*Chairman and CEO*

*BCS Financial Corporation*

**Daniel J. Altobello**

*Chairman*

*Onex Food Services, Inc.*

**Beverly B. Byron**

*President*

*Byron Butcher Associates*

*U.S. House of Representatives (1978-1992)*

**William J. Byron, S.J.**

*Distinguished Professor of Management*

*School of Business*

*Georgetown University*

**Geneva Cannon**

*Supervisor of Instruction*

*Worcester County Public Schools*

**James M. Dale**

*President*

*James Dale, Inc.*

**Ernest R. Grecco**

*President*

*Metropolitan Baltimore Council*

*AFL-CIO Unions*

**Joseph Haskins**

*President and CEO*

*Harbor Bankshares Corporation*

**Sister Carol Keehan, R.N., M.S.**

*President and CEO*

*Providence Hospital*

**J. Richard Lilly, M.D.**

*Founding Partner*

*The Doctors Community Hospital*

*Past President*

*MedChi (Maryland Medical Society)*

**Roger C. Lipitz**

*Chairman of the Board*

*Baltimore Development Corporation*

**Patricia E. Lund, Ed.D., R.N.**

*President*

*Lund Associates*

**Robert H. Naftaly**

*Executive Vice President and Chief Operating Officer*

*Blue Cross and Blue Shield of Michigan*

**Charles W. Shivery**

*President*

*Constellation Power Source, Inc.*

**James C. Simpson**

*Simpson Distribution Company, Inc. (Retired)*

*Maryland State Senate (1974-1994)*

**Eddie N. Williams**

*President*

*Joint Center for Political and Economic Studies*

**Vincent A. Wolfington**

*Chairman of the Board*

*Carey International, Inc*

## Board of Directors

### *CareFirst of Maryland, Inc.*

**Joseph Haskins** - Chairman

*President and CEO*

*Harbor Bankshares Corporation*

**Daniel J. Altobello**

*Chairman*

*Onex Food Services, Inc.*

**Geneva Cannon**

*Supervisor of Instruction*

*Worcester County Public Schools*

**Anne Osborn Emery, Ph.D.**

*President*

*Osborn/Emery Associates, Inc.*

**Patricia E. Lund, Ed.D., R.N.**

*President*

*Lund Associates*

**Hanan Y. Sibel**

*President*

*Sibel Enterprises, LLC*

**James C. Simpson**

*Simpson Distribution Company, Inc. (Retired)*

*Maryland State Senate (1974-1994)*

## Board of Trustees

### *Group Hospitalization and Medical Services, Inc.*

**Edward J. Baran** – Chairman

*Chairman and CEO*

*BCS Financial Corporation*

**William J. Byron, S.J.**

*Distinguished Professor of Management*

*School of Business*

*Georgetown University*

**Sister Carol Keehan, R.N., M.S.**

*President and CEO*

*Providence Hospital*

**Floretta D. McKenzie, Ed.D.**

*Chairwoman and CEO*

*The McKenzie Group, Inc.*

**George B. Wilkes, III**

*Chairman of the Board*

*Healthcare Council of the National Capital Area*

**Eddie N. Williams**

*President*

*Joint Center for Political and Economic Studies*

**Vincent A. Wolfington**

*Chairman of the Board*

*Carey International, Inc.*



## officers

As of 12/31/99

**William L. Jews**

*President and Chief Executive Officer*

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**David R. Astar**

*Executive Vice President, Operations*

**G. Mark Chaney**

*Executive Vice President and Chief Financial Officer*

**Gregory A. Devou**

*Executive Vice President and Chief Marketing Officer*

**John A. Picciotto, Esq.**

*Executive Vice President, General Counsel and Corporate Secretary*

**David D. Wolf**

*Executive Vice President, Medical Management and Strategic Planning; President, CFS*

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**Michael J. Arens**

*Vice President, IT Operations*

**Eric R. Baugh, M.D.**

*Senior Vice President, Medical Affairs and Network Management*

**Livio R. Broccolino, Esq.**

*Deputy General Counsel*

**Janice E. Carman**

*Vice President, FEP Systems Support*

**Booker T. Carter, Jr.**

*Senior Vice President, Claims and Services*

**Geoffrey S. Clasper**

*Vice President and Treasurer*

**Rita A. Costello**

*Vice President, Strategic Planning and  
New Business Development*

**Linda A. Dean**

*Vice President, Administration*

**Pamela S. Deuterman**

*Vice President, Federal Programs*

*President, Capital Area Services Company, Inc.*

**Frances P. Doherty**

*Vice President, Government Affairs*

**M. Bruce Edwards**

*Vice President, Administrative Services*

**Michael J. Felber**

*Senior Vice President, Sales*

**Andrew J. Fitzsimmons**

*Vice President, Financial Planning and  
Data Management*

**Ann T. Gallant**

*Vice President, Corporate Communications*

**John L. Hauer**

*Vice President, TPA Operations*

**Mary Anne Heckwolf**

*Vice President, Government Programs*

**Susan E. B. Homar**

*Vice President, CareFirst Insurance Agency*

**Robert J. Huber**

*Vice President, Underwriting and Pricing*

**Jeanne A. Kennedy**

*Vice President, Business Risk Management*

**Barbara A. Knox**

*Vice President, Marketing and Product Development*

**Kevin C. O'Neill**

*Vice President, Administrative Services, Medical Affairs and Network  
Management*

**Thomas C. Rekart**

*Senior Vice President and Chief Information Officer*

**Jimmy Riggs**

*Acting Vice President and General Auditor*

**Robert N. Sheff, M.D.**

*President, Patuxent Medical Group*

**William V. Stack**

*Vice President and Corporate Controller*

**Raymond W. Turner, M.D.**

*Vice President for Medical Affairs and  
Chief Medical Officer*

**Sharon J. Vecchioni**

*Senior Vice President, Human Resources*

**Ernest A. Viscuso**

*Vice President, Network Contracting,  
Development and Services*

## CareFirst – In Brief

CareFirst, Inc., is a not-for-profit holding company chartered in Maryland to operate through two wholly owned affiliates, CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc., which do business as CareFirst BlueCross BlueShield. The affiliates are independently licensed by the Blue Cross and Blue Shield Association to market health insurance and related services and products throughout the Mid-Atlantic Region, including Maryland, metropolitan Washington, D.C., Northern Virginia and Southern Delaware.

Through its affiliates and subsidiaries, CareFirst serves 2.6 million members. CareFirst associates operate from more than 40 office sites in four states and the District of Columbia. A third of the company's 5,300 associates provide direct medical services to members.

As detailed elsewhere in this report, the company had net income of \$68.9 million in 1999 on combined revenues of \$4.5 billion. CareFirst's reserves under generally accepted accounting principles at the end of 1999 were \$512 million.



On March 23, 2000, CareFirst completed the proposed affiliation with Blue Cross Blue Shield of Delaware following approval by insurance regulators in Maryland, Delaware and the District of Columbia. The affiliation creates a combined company with more than 2.8 million members and \$5 billion in revenues. More than 6,000 employees of CareFirst and its affiliated companies serve members in the five-state Mid-Atlantic

region.

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